

NORTHWESTERN REGIONAL AIRPORT COMMISSION
REPORT ON FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2004 AND 2003

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Unit Name Northwestern Regional Airport Comm		County Grand Traverse
Fiscal Year End December 31, 2005		Opinion Date 2/23/06		Date Audit Report Submitted to State 6/9/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

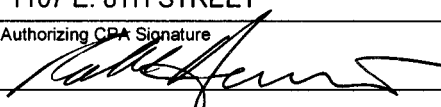
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

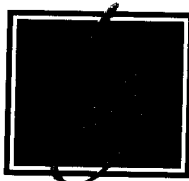
If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No significant issues to be disclosed	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Harris Group, CPAs		Telephone Number 231-946-8930	
Street Address 1107 E. 8TH STREET		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Ronald G Harris, CPA	
		License Number 1101024798	

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HARRIS GROUP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Officers and Commissioners of the
Northwestern Regional Airport Commission

We have audited the basic financial statements of the Northwestern Regional Airport Commission (the "Commission") as of December 31, 2005, 2004 and 2003 as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwestern Regional Airport Commission as of December 31, 2005, 2004 and 2003, and results of its operation and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Northwestern Regional Airport Commission has not presented a management discussion and analysis that the Governmental Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

Harris Group

February 23, 2006

NORTHWESTERN REGIONAL AIRPORT COMMISSION
BALANCE SHEETS
DECEMBER 31, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,288,511	\$ 709,337	\$ 707,555
Investments	445,876	684,468	2,366,233
Accounts receivable, Trade, net of allowance for doubtful accounts of \$10,000 at December 31, 2005, 2004 and 2003, respectively	401,151	298,023	149,664
Current portion of note receivable		18,612	18,612
Inventories	25,781	37,700	38,120
Prepaid expenses and construction advances	<u>346,767</u>	<u>942,886</u>	<u>1,084,738</u>
Total current assets	4,508,086	2,691,026	4,364,922
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation	57,719,913	50,266,017	35,622,243
LONG TERM PORTION OF NOTE RECEIVABLE			18,612
RESTRICTED ASSETS:			
Cash and investments	3,002,154	2,186,989	3,468,133
Passenger facility charges receivable	<u>60,000</u>	<u>60,000</u>	<u>37,000</u>
Total assets	<u>\$ 65,290,153</u>	<u>\$ 55,204,032</u>	<u>\$ 43,510,910</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Current portion of long-term debt	\$ 105,000	\$	\$
Accounts payable	96,445	435,687	136,749
Accrued expenses	<u>221,647</u>	<u>157,091</u>	<u>153,651</u>
Total current liabilities	423,092	592,778	290,400
LONG-TERM DEBT, less current portion	<u>3,795,000</u>		
Total liabilities	<u>4,218,092</u>	<u>592,778</u>	<u>290,400</u>
NET ASSETS:			
Invested in capital assets, net of related debt	53,819,913	50,266,017	35,622,243
Restricted for particular use	290,453	198,940	196,919
Unreserved	<u>6,961,695</u>	<u>4,146,297</u>	<u>7,401,348</u>
Total net assets	<u>61,072,061</u>	<u>54,611,254</u>	<u>43,220,510</u>
Total liabilities and net assets	<u>\$ 65,290,153</u>	<u>\$ 55,204,032</u>	<u>\$ 43,510,910</u>

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	2005	2004	2003
OPERATING REVENUES:			
Rental income	\$ 1,364,793	\$ 1,084,486	\$ 1,042,896
Rent-A-Car concessions	618,805	525,168	452,284
Auto parking	895,162	519,860	536,477
Landing fees	427,123	387,463	363,481
Aviation fuel and oil	176,700	184,738	170,882
State grant	188,637		146,800
Rental car fuel	27,100	109,515	91,015
Advertising	39,825	31,928	33,404
Ground transportation fees	1,493	6,913	8,794
Concessions	9,678	3,180	1,887
Tie downs	5,139	3,031	6,027
TSA Reimbursements	100,562	124,632	
Miscellaneous	84,247	15,993	10,236
Total operating revenues	3,939,264	2,996,907	2,864,183
OPERATING EXPENSES:			
Depreciation	1,838,829	993,693	811,464
Salaries and wages	921,096	859,069	750,853
Utilities	585,230	288,631	205,212
Repairs and maintenance	335,767	251,441	249,821
Payroll taxes and benefits	314,726	272,110	231,916
Advertising and promotion	94,584	134,876	57,892
Janitor services	110,042	75,959	65,692
Rental car fuel	27,822	85,177	77,902
Pension expense	104,719	84,191	76,208
Professional services	654,324	581,406	468,926
Insurance	109,623	79,900	62,672
Equipment rental and repair	143,307	108,890	92,737
Supplies and other expenses	44,425	41,284	48,238
Telephone	27,293	27,644	24,084
CFC expenditures	39,367	6,200	
Bad debts	2,816	1,637	
Total operating expenses	5,353,970	3,892,108	3,223,617
OPERATING INCOME (LOSS)	(1,414,706)	(895,201)	(359,434)
NONOPERATING REVENUES (EXPENSES)			
Interest income	30,981	24,953	61,854
Interest expense	(139,952)		
Gain (loss) from sale of investments	89,955	12,925	
Settlement of special assessment payable			95,331
Total nonoperating revenues – net	(19,016)	37,878	157,185
INCOME (LOSS) BEFORE CONTRIBUTIONS	(1,433,722)	(857,323)	(202,249)

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(continued)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS (from previous page)	(1,433,722)	(857,323)	(202,249)
CAPITAL CONTRIBUTIONS AND CHARGES	<u>7,894,529</u>	<u>12,248,067</u>	<u>14,007,220</u>
CHANGE IN NET ASSETS	6,460,807	11,390,744	13,804,971
NET ASSETS, beginning of year	<u>54,611,254</u>	<u>43,220,510</u>	<u>29,415,539</u>
NET ASSETS, end of year	<u>\$ 61,072,061</u>	<u>\$ 54,611,254</u>	<u>\$ 43,220,510</u>

The accompanying notes are an integral part of these financial statements.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from operating revenues	\$ 3,836,136	\$ 2,848,548	\$ 2,858,138
Cash paid to suppliers and employees	<u>(3,181,788)</u>	<u>(2,453,765)</u>	<u>(2,779,572)</u>
Net cash (used) provided by operating activities	<u>654,348</u>	<u>394,783</u>	<u>78,566</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from debt	3,900,000		
Interest paid	(139,952)		
Note receivable payments received	18,612	18,612	18,612
Purchase of property, plant and equipment	(2,453,369)	(4,260,003)	(1,320,376)
Receipts of passenger facility charges	891,544	845,945	698,457
Receipts of customer facility charges	<u>163,628</u>	<u>1,658</u>	
Net cash provided (used) by capital and related financing activities	<u>2,380,463</u>	<u>(3,393,788)</u>	<u>(603,307)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale (Purchase) of investments and restricted cash and investments	(486,618)	2,975,834	(1,866,727)
Interest received	<u>30,981</u>	<u>24,953</u>	<u>61,854</u>
Net cash provided (used) by investing activities	<u>(455,637)</u>	<u>3,000,787</u>	<u>(1,804,873)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,579,174	1,782	(2,329,614)
CASH AND CASH EQUIVALENTS, beginning of year	<u>709,337</u>	<u>707,555</u>	<u>3,037,169</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,288,511</u>	<u>\$ 709,337</u>	<u>\$ 707,555</u>
NONCASH FINANCING AND INVESTING ACTIVITIES			
The Commission had noncash capital and related financing activities as follows:			
Acquisition of property, plant and equipment through grants	<u>\$ 6,839,355</u>	<u>\$ 11,377,464</u>	<u>\$ 13,299,363</u>

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Continued)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (loss)	\$ (1,414,706)	\$ (895,201)	\$ (359,434)
Adjustments necessary to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	1,838,829	993,693	811,464
Decrease (Increase) in:			
Accounts receivable – trade	(103,128)	(148,359)	(6,045)
Prepaid expenses	596,120	141,852	(451,870)
Inventories	11,919	420	(804)
Increase (Decrease) in:			
Accounts payable	(339,242)	298,938	62,343
Accrued expenses	64,556	3,440	22,912
 Total adjustments	 <u>2,069,054</u>	 <u>1,289,984</u>	 <u>438,000</u>
 Cash provided (used) by operating activities	 <u>\$ 654,348</u>	 <u>\$ 394,783</u>	 <u>\$ 78,566</u>

The accompanying notes are an integral part of these financial statements.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Northwestern Regional Airport Commission (the "Commission") is a governmental entity consisting of representatives from Grand Traverse and Leelanau Counties. The Commission operates and maintains the Cherry Capital Airport (the "Airport") in Traverse City, MI.

Defining the Reporting Entity

The Northwestern Regional Airport Commission is the basic level of government that has oversight responsibility and control over all activities related to the operations of the Airport. The Commission is eligible to receive funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities.

The Commission is not included in any other governmental "reporting entity", as defined by Governmental Accounting Standards Board Statement #14, since the Commission has decision making authority, the power to designate management, the ability to significantly influence operations and retain primary accountability for fiscal matters.

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash Equivalents

The Commission considers all unrestricted deposits and temporary investments with an original maturity of three months or less to be cash equivalents.

Inventory

Inventory consists mainly of maintenance supplies and is stated at the lower of cost or market. Cost is determined using the FIFO (first in, first out) method of inventory valuation.

Revenue Recognition

The Commission earns and records a significant portion of their operating revenues from rental fees charged to airlines who regularly operate flights at the airport, rents charged to airport-based car rental agencies, parking fees, landing fees based on the number of landings and weight of the aircraft, as well as aviation fuel and oil sales. All leases are accounted for as operating leases, whereby revenue is recognized in the period the facility use is provided.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property, Plant and Equipment

Fixed assets are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. No depreciation is provided on construction in progress until the project is complete and the asset is placed in service. Estimated useful lives of fixed assets are as follows:

Landing facilities and road	10 - 20 years
Building and improvements	10 - 39 years
Furniture and equipment	5 - 33 years

Depreciation recognized on assets acquired or constructed through resources externally restricted for capital acquisition is closed to the appropriate contributed capital account. Net income adjusted by the amount of depreciation on property, plant and equipment acquired in this manner is closed to unrestricted retained earnings. Costs of maintenance and repairs are charged to expense when incurred.

Compensated Absences

Vacation and sick leave benefits are charged to operations when earned by the Commission's employees. Unused benefits are recorded as a current liability and are included with accrued expenses on the balance sheet. The amount of accrued vacation was \$32,531, \$38,021 and \$30,027 and the accrued sick pay was \$66,109, \$64,958 and \$61,303 at December 31, 2005, 2004 and 2003, respectively.

Pension Plan

All Airport employees are covered under the Michigan Municipal Employees Retirement System. Participants' contributions were funded 100% by the Commission. It is the Commission's policy to fund retirement costs annually as incurred.

Tax Status

The Commission is a governmental entity exempt from income taxes under Section 501(c)(1) of the Internal Revenue Code.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – DEPOSITS AND INVESTMENTS

The Commission's deposits and investments at December 31, 2005, 2004 and 2003 are composed of the following:

	2005			2004			2003		
	Cash and Equivalents	Investments	Restricted Assets	Cash and Equivalents	Investments	Restricted Assets	Cash and Equivalents	Investments	Restricted Assets
Deposits	\$ 3,287,411		\$ 2,521,170	\$ 708,237		\$ 1,713,046	\$ 705,920	\$ 200,000	\$ 2,925,772
Investments		445,876	480,984		684,468	473,943		2,166,233	542,361
Petty cash									
On hand	1,100			1,100			1,625		
Total	<u>\$ 3,288,511</u>	<u>\$ 445,876</u>	<u>\$ 2,985,591</u>	<u>\$ 709,337</u>	<u>\$ 684,468</u>	<u>\$ 2,186,989</u>	<u>\$ 707,555</u>	<u>\$ 2,366,233</u>	<u>\$ 3,468,133</u>

Deposits

The above deposits are uncollateralized and are held with financial institutions which provide FDIC insurance coverage. The uninsured balances of these accounts reported by the financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) total \$2,700,073, \$2,897,931 and \$3,542,536 at December 31, 2005, 2004 and 2003, respectively. The amount covered by Federal Depository Insurance is \$709,941.

Investments

The Commission is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. Bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles. Investments shown are recorded at cost, which approximate fair value.

The Commission's investments consist primarily of U.S. Bonds and notes. Investments are normally categorized to give an indication of the level of risk assumed by the government unit; however, the investments held occupy a single category defined by SIPC insured and both held by and registered in the name of the Commission's agent. The Commission believes that the investments in these funds comply with the investment authority noted above.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

A summary of the property, plant and equipment is as follows:

	2005	2004	2003
Land	\$ 700,333	\$ 700,333	\$ 700,333
Landing facilities and road	14,051,286	13,948,695	11,170,730
Buildings and improvements	47,752,868	46,057,248	13,558,317
Furniture and equipment	2,901,266	2,674,352	2,174,500
Construction in progress	8,406,794	1,147,580	21,286,862
	73,812,547	64,528,208	48,890,742
Less accumulated depreciation	16,092,634	14,262,191	13,268,499
Net carrying amount	<u>\$ 57,719,913</u>	<u>\$ 50,266,017</u>	<u>\$ 35,622,243</u>
Construction in progress consists of the following:			
	2005	2004	2003
Construction of terminal building Phase I and construction of security fencing	242,293		11,269,139
Construction of Terminal Building Phase III, entrance road, passenger loading bridges, flight information systems and signs, water and sewer (Part B), and the design of taxiway G perimeter road, hold apron, blast wall and service road	1,754,342		5,792,387
Construction of General Aviation Apron, Runway 18/36 safety area study – Phase I			6,048
Construction of new south terminal building and associated facilities Phase IV; Construct taxiway “G”, perimeter road hold, apron, blast wall, and improve runway 10/28 safety area Phase I	425,143		3,280,856
Construction of automobile parking areas at the new south terminal	394,763		756,733
Acquire snow removal equipment – Sweeper, Loader, and Blower; Update Airport Master Plan; Construct Aircraft Rescue and Fire Fighting Building (Design Only); Construct Snow Removal Equipment Building (Design Only)	1,790,312	387,749	
Construct Aircraft Rescue and Fire Fighting Security Building	2,089,802	376,753	
Construct Aircraft Rescue and Fire Fighting/Security Building and acquire Snow Removal Equipment	733,685		
Acquire aircraft rescue and fire fighting vehicle; install misc NAVIDS, install perimeter fence; install Runway 10-28 surface sensors	27,670		
Construct Runway 18/36 Safety Area	925,568		
Local share of construction unallocated to specific project number by the Michigan Department of Transportation	23,216	383,078	181,699
	<u>\$ 8,406,794</u>	<u>\$ 1,147,580</u>	<u>\$ 21,286,862</u>

NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT - continued

The cost of future construction and equipment additions in progress at December 31, 2005 is expected to be \$3,697,498, of which \$3,118,871 will be financed through grants. The Commission has satisfied its funding requirements for projects under construction at December 31, 2005.

NOTE 4 – RESTRICTED ASSETS

Restricted assets consist of cash and investments set aside by the Commission for the following reasons:

	2005	2004	2003
Proceeds from passenger facility charges	\$ 2,546,415	\$ 1,986,391	\$ 3,271,204
Receivables for passenger facility charges	60,000	60,000	37,000
Proceeds from customer facility charges	165,286	1,658	
Proceeds from the sale of auto maintenance building	47,735	47,735	47,735
Allocated proceeds from sale of property by governmental unit	113,944	24,205	23,891
Proceeds from the sale of Aeropark lot	128,774	127,000	125,303
	<u>3,062,154</u>	<u>2,246,989</u>	<u>3,505,133</u>
Total	\$ 3,062,154	\$ 2,246,989	\$ 3,505,133

The proceeds from passenger facility charges, plus interest earned on the funds, have been restricted for approved projects in accordance with Federal regulations.

The proceeds from the customer facility charges, plus interest earned on the funds, have been restricted for the construction of the rental car wash facility.

The proceeds from the sales of the auto maintenance building and the governmental property, plus any interest earned on these funds, have been restricted by the Commission for future airport improvements.

The proceeds from the sale of the Aeropark lot, plus interest earned on the funds, have been restricted for future airport improvements.

NOTE 5 – LONG-TERM DEBT

During the year, Airport Revenue Bonds, Series 2004 were obtained from Municipal Financial Consultants Incorporated. At December 31, 2005, long-term obligations currently outstanding are as follows:

Airport Revenue Bonds, Series 2004 payable in annual installments of \$105,000 to \$290,000 from August 2005 through February 2025, interest at 2.15 to 4.50%	<u>\$ 3,900,000</u>
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NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT - continued

The annual requirements to amortize long-term obligations outstanding as of December 31, 2005 including interest of \$1,833,209 are as follows:

Year ending December 31,	Principal	Interest	Total
2006	\$ 105,000	\$ 145,894	\$ 250,894
2007	135,000	143,179	278,179
2008	140,000	139,843	279,843
2009	145,000	136,207	281,207
2010	150,000	132,185	282,185
2011 - 2015	855,000	581,325	1,436,325
2016 - 2020	1,050,000	402,458	1,452,458
2021 - 2025	1,320,000	152,119	1,472,119
	<u>\$ 3,900,000</u>	<u>\$ 1,833,210</u>	<u>\$ 5,733,210</u>

The following is a summary of the changes in long-term liabilities for the year ended December 31, 2005:

	Beginning balance	Additions	Reductions	Ending Balance	Due within one year
Bonds payable:					
Revenue Bonds	<u>\$</u>	<u>\$ 3,900,000</u>	<u>\$</u>	<u>\$ 3,900,000</u>	<u>\$ 105,000</u>

Interest expense (all funds) for the year ended December 31, 2005 was \$139,952.

NOTE 6 – CAPITAL GRANTS

As of December 31, 2005, the Commission has contracted with Federal and State agencies to construct facilities and purchase equipment. Not all of the funding the Commission is eligible to receive has been released to them, as the projects have not been completed. A schedule of grants earned and for which funding is still available is presented below.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CAPITAL GRANTS - continued

Project	Grant Amount	2003	2004	2005	Amount Remaining at 12/31/05
Construction of terminal building Phase I and construction of security fencing	\$ 18,260,200	\$ 1,804,712	\$	\$ 1,121,807	*
Construction of Terminal Building Phase III, entrance road, passenger loading bridges, flight information systems and signs, water and sewer (Part B), and the design of taxiway G perimeter road, hold apron, blast wall and service road	10,555,556	5,147,959	4,779,793	1,038,181	*
Construction of General Aviation apron, Runway 18/36 safety area study – Phase I	146,389	5,443	94,425	(4,409)	*
Construction of new south terminal building and associated facilities Phase IV; Construct taxiway "G", perimeter road, hold apron, blast wall, and improve runway 10/28 safety area Phase I	7,555,555	2,952,769	4,657,434	387,039	*
Construction of automobile parking areas at the new south terminal	2,000,000	681,060	1,118,986	199,953	*
Acquire snow removal equipment – Sweeper, Loader, and Blower; Update Airport Master Plan; Construct Aircraft Rescue and Fire Fighting Building (Design Only); Construct Snow Removal Equipment Building (Design Only)	1,813,450		368,912	1,376,641	67,897
Construct Aircraft Rescue and Fire Fighting Security Building	2,229,518		357,914	1,075,320	796,284
Construct Aircraft Rescue and Fire fighting/Security Building and acquire Snow Removal Equipment	1,435,688			715,416	720,272
Acquire aircraft rescue and fire fighting vehicle; install misc NAVIDS, install perimeter fence; install Runway 10-28 surface sensors	1,560,000			26,979	1,533,022
Construct Runway 18/36 Safety Area	903,825			902,429	1,396
Closed contracts		2,707,420			
Totals		<u>\$13,299,363</u>	<u>\$ 11,377,465</u>	<u>\$ 6,839,355</u>	<u>\$ 3,118,871</u>

* Projects considered complete as of December 31, 2005

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 – LOCAL GOVERNMENT REPRESENTATION

By resolution adopted during 1990, Grand Traverse County was granted representation by five members and Leelanau County two members on the Commission's Board. At the same time, Antrim, Benzie and Kalkaska Counties were granted the opportunity to join the Commission with two representatives from Antrim County and one member each from Benzie and Kalkaska Counties. As of December 31, 2005, Antrim, Benzie and Kalkaska Counties had not joined the Commission.

NOTE 8 – OPERATING LEASES

The Northwestern Regional Airport Commission entered into a lease agreement on May 1, 1972 with the City of Traverse City. The terms of the lease provide that all Airport land, buildings and appurtenances owned and controlled by the City will be leased for a period of 40 years for \$1, with options to renew. The Commission also accepted responsibility for maintenance and operating expenses related to the property. On July 3, 1990, the City of Traverse City transferred property and assigned its interest in the lease agreement to Grand Traverse and Leelanau Counties. In 1990, the Counties agreed to extend the operating agreement to 50 years, which was reduced to written agreement executed by the counties and the Commission on February 17, 2002. Due to the Commission's creation by contract between the counties, title to the airport merged into the counties (and the Commission) at the time of conveyance from the City, thereby relieving the counties of the need to extend the original lease. The Northwestern Regional Airport Commission continues to operate the airport through 2040 by written agreement of the counties as referenced above.

NOTE 9 – PENSION PLAN

Plan Description

The Northwestern Regional Airport Commission participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible employees of the Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Municipal Employees Retirement System, 447 North Canal, Lansing, MI 48917 or by calling (517) 622-3197.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Commission's competitive bargaining units. It is the Commission's policy to annually fund the plan in an amount equal to the annual required contribution.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – PENSION PLAN - continued

Annual Pension Cost

For the year ended December 31, 2005, 2004 and 2003, the Commission's annual pension cost of \$104,719, \$84,191 and \$76,208 for the plan was equal to the Commission's required and actual contribution. The annual required contribution was determined as part of the actuarial valuation at December 31, 2004, using the entry age normal cost funding method. Significant actuarial assumptions used include (a) an 8.0% investment rate of return, (b) projected salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) 2.5% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level annual percentage of payroll payment required to amortize the unfunded actuarial accrual liability over 30 years.

Three-year Trend Information

	2002	2003	2004
Annual pension cost	\$ 76,208	\$ 84,191	\$ 104,719
Percentage of APC contributed	100%	100%	100%
Net pension obligation			
Actuarial value of assets	1,697,334	1,876,191	2,070,664
Actuarial accrued liability (entry age)	2,109,981	2,246,201	2,640,600
Unfunded AAL	412,647	370,010	569,936
Funded ratio	80%	84%	78%
Covered payroll	571,016	731,682	830,895
UAAL as a percentage of covered payroll	72%	51%	69%

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Legal Actions

The Commission is involved in legal actions and may be contingently liable for environmental damages and other costs arising in the ordinary course of business. In the opinion of the Commission, any actions with respect to these matters will not materially affect the Commission's results of operations or financial position.

Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission is included under the County of Grand Traverse's coverage in the Michigan Municipal Risk Management Authority for risk of loss relating to its real property.

The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage and property.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 – COMMITMENTS AND CONTINGENCIES - continued

Risk Management - continued

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members. An individual member's maximum retention on general liability and auto liability is \$50,000. The limits on auto physical damage are \$10,000 per unit and \$30,000 per occurrence. The retention limits for property coverage are subject to a \$1,000 deductible with 10% of the first \$100,000 to be paid by the member. Some members have individual retention levels different than the ones previously stated.

In the event a reinsurance company does not meet its obligations to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund.

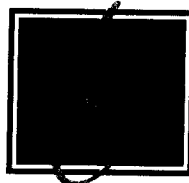
The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance Fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund.

In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements.

The Commission carries commercial insurance for all other risks of loss including workers' compensation and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 – RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2005 presentation.



HARRIS GROUP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our report on our audit of the financial statements of the Northwestern Regional Airport Commission for December 31, 2005, 2004 and 2003 appears on page 1. That audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information on pages 18 through 23 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements taken as a whole.

Certified Public Accountants
February 23, 2006

NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF REVENUES, EXPENDITURES AND OTHER FINANCING USES –
BUDGET (CASH BASIS) AND ACTUAL (ACCRUAL BASIS EXCLUDING
DEPRECIATION AND BAD DEBT EXPENSE)
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	2005				
	Budget	Actual	Variance - Favorable (Unfavorable)	2004 Actual	2003 Actual
OPERATING REVENUES:					
Rental income	\$ 1,258,059	\$ 1,364,793	\$ 106,734	\$ 1,084,486	\$ 1,042,896
Rent-A-Car concessions	557,309	618,805	61,496	525,168	452,284
Auto parking	660,000	895,162	235,162	519,860	536,477
Landing fees	382,497	427,123	44,626	387,463	363,481
Aviation fuel and oil	153,800	176,700	22,900	184,738	170,882
State grant		188,637	188,637		146,800
Rental car fuel	28,700	27,100	(1,600)	109,515	91,015
Advertising	30,000	39,825	9,825	31,928	33,404
Ground transportation fees	2,100	1,493	(607)	6,913	8,794
Concessions	3,600	9,678	6,078	3,180	1,887
Tie downs	3,500	5,139	1,639	3,031	6,027
TSA reimbursements	188,599	100,562	88,037	124,632	
Miscellaneous	24,612	84,247	59,635	15,993	10,236
Total operating revenues	3,292,776	3,939,264	646,488	2,996,907	2,864,183
OPERATING EXPENSES:					
Salaries and wages	986,616	921,096	65,520	859,069	750,853
Utilities	491,100	585,230	(94,130)	288,631	205,212
Repairs and maintenance	434,620	335,767	98,853	251,441	249,821
Payroll taxes and benefits	317,785	314,726	3,059	272,110	231,916
Advertising and promotion	132,000	94,584	37,416	134,876	57,892
Janitor services	108,419	110,042	(1,623)	75,959	65,692
Rental car fuel	26,100	27,822	(1,722)	85,177	77,902
Pension expense	114,000	104,719	9,281	84,191	76,208
Professional services	686,994	654,324	32,670	581,406	468,926
Insurance	114,850	109,623	5,227	79,900	62,672
Equipment rental and repair	172,650	143,307	29,343	108,890	92,737
Supplies and other expenses	87,750	44,425	43,325	41,284	48,238
Telephone	38,600	27,293	11,307	27,644	24,084
CFC expenditures		39,367	(39,367)	6,200	
Total operating expenses	3,711,484	3,512,325	199,159	2,896,778	2,412,153
OPERATING INCOME (LOSS)	(418,708)	426,939	845,647	100,129	452,030
NONOPERATING REVENUES (EXPENSES)					
Interest income	12,000	30,981	18,981	24,953	61,854
Interest expense		(139,952)	(139,952)		
Gain (loss) on sale of investments		89,955	89,955	12,925	
Settlement of special assessment payable					95,331
Total nonoperating revenues – net	12,000	(19,016)	(31,016)	37,878	157,185
REVENUES OVER EXPENDITURES	(406,708)	407,923	814,631	138,007	609,215

NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF REVENUES, EXPENDITURES AND OTHER FINANCING USES -
BUDGET (CASH BASIS) AND ACTUAL (ACCRUAL BASIS EXCLUDING
DEPRECIATION AND BAD DEBT EXPENSE)
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(continued)

	2005			2004	2003
	Budget	Actual	Variance - Favorable (Unfavorable)	Actual	Actual
REVENUES OVER EXPENDITURES					
From previous page	\$ (406,708)	\$ 407,923	\$ 814,631	\$ 138,007	\$ 609,215
OTHER FINANCING USES					
Bond Proceeds	3,822,000	3,900,000	78,000		
Working Cash Fund	1,765,000		(1,765,000)		
Capital outlay		(1,326,967)	(1,326,967)	(499,853)	(725,092)
Reserve for airline terminal	(2,000,000)	(521,898)	1,478,102	(3,618,297)	(1,047,155)
Reserve for airline terminal/FFE	(135,000)		135,000		
Reserve for rent-a-car-service	(1,300,000)		1,300,000		
Bond payment	(90,000)		90,000		
Contingency	(400,000)		400,000		
Total other financing uses	1,662,000	2,051,135	389,135	(4,118,150)	(1,772,247)
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	\$ 1,255,292	\$ 2,459,058	\$ 1,203,766	\$ (3,980,143)	\$ (1,163,032)

NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF CHANGES IN FUND EQUITY
(Pre Statement GASB #34)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	Capital Grants	Retained Earnings		
		Unreserved	Reserved	Total
Balance, January 1, 2003	\$ 18,344,603	\$ 10,876,703	\$ 194,233	\$ 11,070,936
Income (loss) before capital contributions		(202,249)		(202,249)
Allocated interest income		(2,686)	2,686	
Passenger facility charges	677,116			
Passenger facility charges interest income	30,741			
Disbursement of passenger facility charges	1,241,552	(1,241,552)		(1,241,552)
Capital grants	13,299,363			
Depreciation expense related to property, plant and equipment acquired and constructed with capital grants	(588,678)	588,678		588,678
Balance, December 31, 2003	33,004,697	10,018,894	196,919	10,215,813
Income (loss) before capital contributions		(857,323)		(857,323)
Allocated interest income		(2,021)	2,021	
Passenger facility charges	838,026			
Passenger facility charges interest income	30,919			
Transfer of passenger facility charges	(2,130,767)	2,130,767		2,130,767
Customer facility charges	1,658			
Capital grants	11,377,464			
Depreciation expense related to property, plant and equipment acquired and constructed with capital grants	(733,088)	733,088		733,088
Balance, December 31, 2004	42,388,909	12,023,405	198,940	12,222,345
Income (loss) before capital contributions		(1,433,722)		(1,433,722)
Allocated interest income		(3,058)	3,058	
Passenger facility charges	834,216			
Passenger facility charges interest income	57,328			
Transfer of passenger facility charges	(331,513)	331,513		331,513
Customer facility charges	163,629			
Capital grants	6,839,356			
Allocated Earnings		(88,455)	88,455	
Depreciation expense related to property, plant and equipment acquired and constructed with capital grants	(1,645,292)	1,645,292		1,645,292
Balance, December 31, 2005	<u>\$ 48,306,633</u>	<u>\$ 12,474,975</u>	<u>\$ 290,453</u>	<u>\$ 12,765,428</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF CAPITAL CONTRIBUTIONS
DECEMBER 31, 2005, 2004 AND 2003**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Federal Grants	\$ 6,421,493	\$ 9,948,798	\$ 12,061,343
State Grants	417,863	1,428,666	1,238,020
Passenger facility charges and interest earned	891,544	868,945	707,857
Customer facility charges	<u>163,629</u>	<u>1,658</u>	
Total capital contributions	<u>\$ 7,894,529</u>	<u>\$ 12,248,067</u>	<u>\$ 14,007,220</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF CONTRIBUTED CAPITAL
DECEMBER 31, 2005, 2004 AND 2003**

	Accumulated Contributed Capital Since Inception			Current Increase
	2005	2004	2003	
Federal government	\$ 53,038,819	\$ 46,617,326	\$ 36,668,528	\$ 6,421,493
State government	4,786,788	4,368,925	2,940,259	417,863
Local government	39,470	39,470	39,470	
Total capital grants	57,865,077	51,025,721	39,648,257	6,839,356
Less accumulated write-downs through depreciation	12,330,145	10,684,853	9,951,765	1,645,292
Total capital grants, net of depreciation	45,534,932	40,340,868	29,696,492	5,194,064
Customer facility charges	165,286	1,658		163,628
Passenger facility charges, plus related investment earnings	2,606,415	2,046,383	3,308,205	560,032
Total contributed capital	<u>\$ 48,306,633</u>	<u>\$ 42,388,909</u>	<u>\$ 33,004,697</u>	<u>\$ 5,917,724</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF ACCUMULATED EARNINGS
DECEMBER 31, 2005, 2004 AND 2003**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>Current Increase</u>
Cumulative local governmental contributions				
City of Traverse City	\$ 609,701	\$ 609,701	\$ 609,701	\$
Grand Traverse County	503,302	503,302	503,302	
Leelanau County	<u>293,440</u>	<u>293,440</u>	<u>293,440</u>	
Total income from contributions	1,406,443	1,406,443	1,406,443	
Excess of revenues over expenses	<u>11,358,985</u>	<u>10,815,902</u>	<u>8,809,370</u>	<u>543,083</u>
Accumulated earnings	<u>\$ 12,765,428</u>	<u>\$ 12,222,345</u>	<u>\$ 10,215,813</u>	<u>\$ 543,083</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
OFFICERS AND COMMISSIONERS
DECEMBER 31, 2005**

Dr. Stephen Beeker	Chairman and Commissioner
Jim Minster	Vice Chairman and Commissioner
Elizabeth Edwards	Treasurer and Commissioner
David Rapson	Commissioner
Tom Kern	Commissioner
Jacqueline Scott	Commissioner
Robert Weaver	Commissioner
Stephen Cassens	Secretary and Airport Director



HARRIS GROUP

Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE AND EXPENSES

Officers and Commissioners of the
Northwestern Regional Airport Commission

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the **Northwestern Regional Airport Commission** (the "Commission") for the years ended December 31, 2005, 2004 and 2003 and have issued our report thereon dated February 23, 2006. We have also audited the accompanying Schedules of Passenger Facility Charge Revenue and Expenses of **Northwestern Regional Airport Commission** for the years ended December 31, 2005, 2004 and 2003. This schedule is the responsibility of the Commission's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit of the schedule in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Schedule of Passenger Facility Charge Revenue and Expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Passenger Facility Charge Revenue and Expenses referred to above presents fairly, in all material respects, the net transactions within the Passenger Facility Charge Account for the year ended December 31, 2005, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Passenger Facility Charge Reporting

In planning and performing our audits, we considered **Northwestern Regional Airport Commission's** internal control over passenger facility charge reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule and not to provide assurance on the internal control over passenger facility charge reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over passenger facility charge reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the officers and commissioners and management of the Northwestern Regional Airport Commission and the Federal Aviation Administration and should not be used for any other purposes.

Harris Group
February 23, 2006

NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE AND EXPENSES
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues:			
Air carrier remittances	\$ 834,216	\$ 838,026	\$ 677,116
Interest	<u>57,349</u>	<u>30,939</u>	<u>30,898</u>
Total revenues	<u>891,565</u>	<u>868,965</u>	<u>708,014</u>
Expenses:			
Approved PFC expenditures	331,513	2,130,767	
Bank fees	<u>21</u>	<u>20</u>	<u>157</u>
Total expenditures	<u>331,534</u>	<u>2,130,787</u>	<u>157</u>
Other revenue			
Refund of overpayment			<u>1,241,552</u>
Net passenger facility charge			
Revenue and expenses	<u>\$ 560,031</u>	<u>\$ (1,261,822)</u>	<u>\$ 1,949,409</u>

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE AND EXPENSES

NOTE A – SUMMARY OF ACCOUNTING POLICIES

General

The Northwestern Regional Airport Commission (the "Commission") is a governmental entity consisting of representatives from Grand Traverse and Leelanau Counties. The Commission operates and maintains the Cherry Capital Airport (the "Airport") in Traverse City, Michigan.

Defining the Reporting Entity

The Northwestern Regional Airport Commission is the basic level of government, which has oversight responsibility and control over all activities related to the operations of the Airport. The Commission receives passenger facility charges from surcharges levied by airlines on behalf of the Commission. These revenues, as well as expenses, are required to be accounted for in the Schedule of Passenger Facility Charge Revenue and Expenses as proscribed by the Federal Aviation Administration. The activity reflected in this schedule is accounted for within the contributed capital detailed within the Commission's general purpose financial statements.

Use of Estimates in the Preparation of the Schedule of Passenger Facility Charge Revenue and Expenses

The preparation of the Schedule of Passenger Facility Charge Revenue and Expenses in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

Revenue Recognition

Passenger facility charge revenues are recognized within the period these charges are collected by air carriers on behalf of the Commission.